

OSAGE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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Osage Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Jon Gisleson	President	2006
Herb Wright	Vice President	2006
Konnie Snider	Board Member	2007
Rae Anne Havig	Board Member	2008
Angela Nasstrom	Board Member	2008
Board of Education (After September 2006 Election)		
Angela Nasstrom	President	2008
Rae Anne Havig	Vice President	2008
Konnie Snider	Board Member	2007
Neil Wubben	Board Member	2009
Karla Mitchell	Board Member	2009
School Officials		
Stephen Williams	Superintendent	2007
Sue Brandau	District Board Secretary	2007
Connie Jensen	District Treasurer	2007
Aaron Murphy	Attorney	2007

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Osage Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District, Osage, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 4, 2008 on our consideration of Osage Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Osage Community School District's basic financial statements. Another firm previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Osage Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,713,551 in fiscal 2006 to \$8,037,961 in fiscal 2007, while General Fund expenditures increased from \$7,801,121 in fiscal 2006 to \$8,150,762 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$268,536 in fiscal 2006 to \$155,735 in fiscal 2007, a 42.0% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property taxes and state grant revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- The District received \$664,464 in local option sales and service tax during the year.
- The District showed a decrease of 21.6 resident students on line 1 of the September 2006 Certified Enrollment count, representing a 2.26% decrease compared to the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Osage Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Osage Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Osage Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Osage Community School District Annual Financial Report

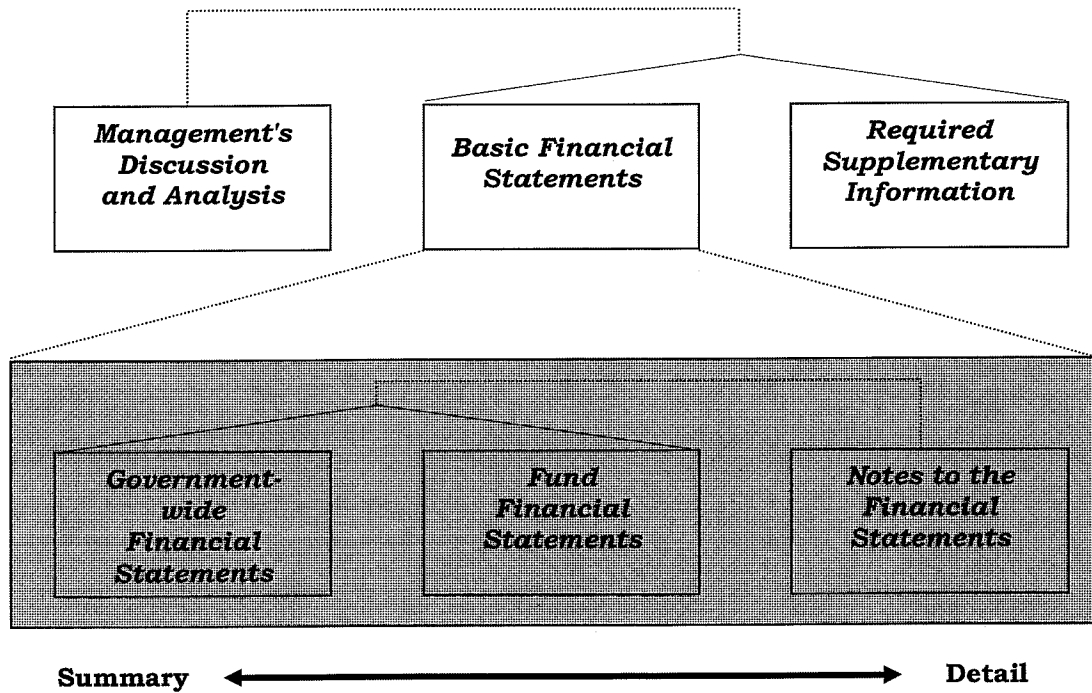


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds and Capital Projects.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one internal service fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust Fund.

- a. Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliation between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 7,528,765	5,953,695	40,950	34,994	7,569,715	5,988,689	26.40%
Capital assets	6,616,877	6,163,028	55,257	58,294	6,672,134	6,221,322	7.25%
Total assets	14,145,642	12,116,723	96,207	93,288	14,241,849	12,210,011	16.64%
Long-term liabilities	2,166,210	923,536	0	0	2,166,210	923,536	134.56%
Other liabilities	5,638,385	5,161,142	10,423	4,067	5,648,808	5,165,209	9.36%
Total liabilities	7,804,595	6,084,678	10,423	4,067	7,815,018	6,088,745	28.35%
Net assets:							
Invested in capital assets, net of related debt	5,555,211	5,578,028	55,257	58,294	5,610,468	5,636,322	-0.46%
Restricted	883,358	537,349	0	0	883,358	537,349	64.39%
Unrestricted	(97,522)	(83,332)	30,527	30,927	(66,995)	(52,405)	-27.84%
Total net assets	\$ 6,341,047	6,032,045	85,784	89,221	6,426,831	6,121,266	4.99%

The District's combined net assets increased by 4.99% or \$305,565 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$346,009 or 64.39% over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$14,590 or 27.84%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 894,505	930,997	244,689	246,726	1,139,194	1,177,723	-3.27%
Operating grants and contributions and restricted interest	1,002,686	984,932	143,124	107,331	1,145,810	1,092,263	4.90%
Capital grants and contributions and restricted interest	25,289	0	0	0	25,289	0	100.00%
General revenues:							
Property tax	3,210,970	2,842,976	0	0	3,210,970	2,842,976	12.94%
Local option sales and service tax	664,464	488,563	0	0	664,464	488,563	36.00%
Unrestricted state grants	3,780,886	3,620,132	0	0	3,780,886	3,620,132	4.44%
Other	223,421	196,320	798	419	224,219	196,739	13.97%
Total revenues	9,802,221	9,063,920	388,611	354,476	10,190,832	9,418,396	8.20%
Program expenses:							
Governmental activities:							
Instructional	6,224,834	5,620,623	0	0	6,224,834	5,620,623	10.75%
Support services	2,447,600	2,462,377	2,730	0	2,450,330	2,462,377	-0.49%
Non-instructional programs	0	0	389,318	361,549	389,318	361,549	7.68%
Other expenses	820,785	665,490	0	0	820,785	665,490	23.34%
Total expenses	9,493,219	8,748,490	392,048	361,549	9,885,267	9,110,039	8.51%
Change in net assets	309,002	315,430	(3,437)	(7,073)	305,565	308,357	-0.91%
Net assets beginning of year	6,032,045	5,716,615	89,221	96,294	6,121,266	5,812,909	5.30%
Net assets end of year	\$ 6,341,047	6,032,045	85,784	89,221	6,426,831	6,121,266	4.99%

In fiscal 2007, property tax and unrestricted state grants account for 71.34% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.80% of the revenue from business type activities.

The District's total revenues were approximately \$10.19 million of which \$9.80 million was for governmental activities and \$.39 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 8.20% in revenues and an 8.51% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$9,802,221 and expenses were \$9,493,219.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 6,224,834	5,620,623	10.75%	4,659,296	4,564,748	2.07%
Support services	2,447,600	2,462,377	-0.60%	2,434,529	1,901,249	28.05%
Other expenses	820,785	665,490	23.34%	476,914	366,564	30.10%
Totals	\$ 9,493,219	8,748,490	8.51%	7,570,739	6,832,561	10.80%

- The cost financed by users of the District's programs was \$894,505.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,027,975.
- The net cost of governmental activities was financed with \$3,210,970 in local tax, \$664,464 in local option sales and service tax, \$3,780,886 in unrestricted state grants and \$188,851 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$388,611 and expenses were \$392,048. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Osage Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,718,712, above last year's ending fund balances of \$797,783. This increase is primarily due to the proceeds of the revenue and capital loan note issues being placed in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund balance decreased from \$268,536 on June 30, 2006 to \$155,735 on June 30, 2007. The fluctuation in the District's General Fund financial position is the product of many factors. Increases in the state grant and tax revenues during the year resulted in an increase in total revenues. Revenues were exceeded by expenditures ensuring the decrease in the District's financial position.
- The Capital Projects fund balance increased during the current year, from \$192,915 to \$1,306,164. This increase was the result of the District issuing \$520,000 in revenue bonds and \$835,000 in capital loan notes for upcoming construction projects.

Proprietary Fund Highlights

The Enterprise Funds net assets decreased from \$89,221 at June 30, 2006 to \$85,784 at June 30, 2007, representing a decrease of approximately 3.85%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$390,292 more than budgeted revenues, a variance of 4.05%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is not the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District's budget is developed utilizing realistic projections of revenues and expenditures. The district then manages or controls General Fund spending through its line-item budget. In situations where revenues exceed projections, and expenditures do not exceed spending authority, the Board may take action to amend the budget authorizing additional expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$6,672,134, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 6.76% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$407,751.

The original cost of the District's capital assets was \$11,003,038. Governmental funds account for \$10,840,918 with the remainder of \$162,120 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. Construction in progress totaled \$0 at June 30, 2006, compared to \$477,356 reported at June 30, 2007. This increase is due to unfinished construction projects by the District.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 422,000	422,000	0	0	422,000	422,000	0.00%
Construction in progress	477,356	0	0	0	477,356	0	100.00%
Buildings	4,724,518	4,846,309	0	0	4,724,518	4,846,309	-2.58%
Improvements other than buildings	91,060	96,099	0	0	91,060	96,099	-5.53%
Machinery and equipment	901,943	798,620	55,257	58,294	957,200	856,914	10.48%
Total	\$ 6,616,877	6,163,028	55,257	58,294	6,672,134	6,221,322	6.76%

Long-Term Debt

At June 30, 2007, the District had \$2,166,210 in other long-term debt outstanding. This represents an increase of 134.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 445,000	585,000	-23.9%
Revenue bonds	520,000	0	100.0%
Energy loan notes	835,000	0	100.0%
Compensated absences	886	0	100.0%
Early retirement	365,324	338,734	100.0%
Total	\$ 2,166,210	923,734	134.5%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment fluctuations may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. After the appropriation of State Aid (and after the adoption of the District's budget for a particular fiscal year), the Governor and the General Assembly have the ability to rescind all or a portion of the appropriation. Certain areas of the State's budget are exempt from these potential cuts; however, K-12 and community college funding are not exempt from rescission. Historically, rescissions were imposed in an "across-the-board" fashion, and all state funding was reduced in a percentage format. This had the potential to impact schools with low valuation per pupil much greater than schools with high per pupil valuations. In the 2002 General Assembly, the formula for rescission was altered for K-12 funding, such that all future rescissions, if any, would be applied to K-12 education on a "per-pupil" basis.
- All District employees qualify for participation in the Iowa Public Employees Retirement System(IPERS). Both the District and its employees contribute to this fund. IPERS has an unfunded actuarial liability and unrecognized actuarial loss. Given this fact, additional contributions have been required by the General Assembly. The legislation increased IPERS contribution rates 0.5 percent per year for four years and restricts certain practices and benefits to control benefit costs. The increases begin July 1, 2007.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Brandau, District Board Secretary, Osage Community School District, 820 Sawyer Drive, Osage, Iowa, 50461.

BASIC FINANCIAL STATEMENTS

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Osage Education Foundation
Assets				
Cash and cash equivalents:				
ISCAP(Note 4)	\$ 1,640,935	0	1,640,935	392,646
Other	2,566,423	20,386	2,586,809	0
Receivables:				
Property tax:				
Delinquent	46,382	0	46,382	0
Succeeding year	2,848,149	0	2,848,149	0
Income surtax	174,416	0	174,416	0
Accounts	14,449	76	14,525	0
Accrued ISCAP interest(Note 4)	11,198	0	11,198	0
Due from other governments	226,813	0	226,813	0
Inventories	0	20,488	20,488	0
Capital assets, net of accumulated depreciation(Note 5)	6,616,877	55,257	6,672,134	0
Total Assets	14,145,642	96,207	14,241,849	392,646
Liabilities				
Accounts payable	227,007	0	227,007	0
Salaries and benefits payable	879,551	4,387	883,938	0
Accrued interest payable	15,468	0	15,468	0
ISCAP warrants payable(Note 4)	1,644,000	0	1,644,000	0
ISCAP interest payable(Note 4)	9,518	0	9,518	0
ISCAP unamortized premiums payable	10,176	0	10,176	0
Deferred revenue:				
Succeeding year property tax	2,848,149	0	2,848,149	0
Other	4,516	0	4,516	0
Unearned revenues	0	6,036	6,036	0
Long-term liabilities(Note 6):				
Portion due within one year:				
General obligation bonds	145,000	0	145,000	0
Accrued compensated absences	886	0	886	0
Early Retirement	68,318	0	68,318	0
Portion due after one year:				
General obligation bonds	300,000	0	300,000	0
Revenue bonds	520,000	0	520,000	0
Energy loan notes	835,000	0	835,000	0
Early Retirement	297,006	0	297,006	0
Total Liabilities	7,804,595	10,423	7,815,018	0
Net Assets				
Invested in capital assets, net of related debt	5,555,211	55,257	5,610,468	0
Restricted for:				
Scholarships	0	0	0	40,325
Beginning teacher mentoring	11,332	0	11,332	0
Salary improvement program	4,090	0	4,090	0
Additional teacher contract day	2	0	2	0
Market factor	3,044	0	3,044	0
Talented and gifted	7,107	0	7,107	0
Physical plant and equipment levy	1,176	0	1,176	0
Capital projects	567,830	0	567,830	179,618
Debt service	11,332	0	11,332	0
Other special revenue purposes	204,695	0	204,695	0
Unrestricted	(24,772)	30,527	5,755	172,703
Total Net Assets	\$ 6,341,047	85,784	6,426,831	392,646

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit B

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
		Operating Grants,	Capital Grants,		Primary Government		Component Unit	
	Charges	Contributions	Contributions		Govern-	Business-	Osage	
	for	and Restricted	and Restricted		mental	Type	Education	
	Expenses	Interest	Interest		Activities	Activities	Foundation	
Functions/Programs								
Governmental activities:								
Instruction:								
Regular instruction	\$ 3,591,685	227,894	620,488	0	(2,743,303)	0	(2,743,303)	
Special instruction	1,167,377	128,322	50,545	0	(988,510)	0	(988,510)	
Other instruction	1,465,772	538,289	0	0	(927,483)	0	(927,483)	
	6,224,834	894,505	671,033	0	(4,659,296)	0	(4,659,296)	
Support services:								
Student services	245,873	0	0	0	(245,873)	0	(245,873)	
Instructional staff services	506,278	0	0	0	(506,278)	0	(506,278)	
Administration services	700,480	0	0	0	(700,480)	0	(700,480)	
Operation and maintenance of plant services	601,236	0	0	0	(601,236)	0	(601,236)	
Transportation services	393,733	0	13,071	0	(380,662)	0	(380,662)	
	2,447,600	0	13,071	0	(2,434,529)	0	(2,434,529)	
Other expenditures:								
Facilities acquisitions	258,042	0	0	25,289	(232,753)	0	(232,753)	
Long-term debt interest	34,731	0	0	0	(34,731)	0	(34,731)	
AEA flowthrough	318,582	0	318,582	0	0	0	0	
Depreciation(unallocated)*	209,430	0	0	0	(209,430)	0	(209,430)	
	820,785	0	318,582	25,289	(476,914)	0	(476,914)	
Total governmental activities	9,493,219	894,505	1,002,686	25,289	(7,570,739)	0	(7,570,739)	
Business-Type activities:								
Support services:								
Operation and maintenance of plant services	2,730	0	0	0	0	(2,730)	(2,730)	
Non-instructional programs:								
Nutrition services	389,318	244,689	143,124	0	0	(1,505)	(1,505)	
Total business-type activities	392,048	244,689	143,124	0	0	(4,235)	(4,235)	
Total primary government	\$ 9,885,267	1,139,194	1,145,810	25,289	(7,570,739)	(4,235)	(7,574,974)	
Total component unit	\$ 1,680,595	2,188	63,831	1,786,664			172,088	
General Revenues and Transfers:								
Property tax levied for:								
General purposes					\$ 3,098,052	0	3,098,052	
Debt service					14,252	0	14,252	
Capital outlay					98,666	0	98,666	
Local option sales and services					664,464	0	664,464	
Unrestricted state grants					3,780,886	0	3,780,886	
Unrestricted investment earnings					188,851	798	189,649	
Other					55,531	0	55,531	
Transfers					(20,961)	0	(20,961)	
Total general revenues					7,879,741	798	7,880,539	
Changes in net assets					309,002	(3,437)	305,565	
Net assets beginning of year					6,032,045	89,221	6,121,266	
Net assets end of year					\$ 6,341,047	85,784	6,426,831	

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,640,935	0	0	1,640,935
Other	997,861	1,294,285	261,557	2,553,703
Receivables:				
Property tax:				
Delinquent	42,847	0	3,535	46,382
Succeeding year	2,629,012	0	219,137	2,848,149
Income surtax	104,650	0	69,766	174,416
Accounts	11,465	0	2,984	14,449
Accrued ISCAP interest(Note 4)	11,198	0	0	11,198
Due from other governments	78,586	148,227	0	226,813
Total Assets	\$ 5,516,554	1,442,512	556,979	7,516,045
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	79,396	136,348	11,263	227,007
Salaries and benefits payable	879,551	0	0	879,551
ISCAP warrants payable(Note 4)	1,644,000	0	0	1,644,000
ISCAP interest payable(Note 4)	9,518	0	0	9,518
ISCAP unamortized premiums payable	10,176	0	0	10,176
Deferred revenue:				
Succeeding year property tax	2,629,012	0	219,137	2,848,149
Income surtax	104,650	0	69,766	174,416
Other	4,516	0	0	4,516
Total liabilities	5,360,819	136,348	300,166	5,797,333
Fund balances:				
Reserved for:				
Construction	0	738,334	0	738,334
Debt Service	0	0	11,332	11,332
Beginning teacher mentoring	4,090	0	0	4,090
Salary improvement program	2	0	0	2
Additional teacher contract day	3,044	0	0	3,044
Market factor	7,107	0	0	7,107
Talented and gifted	84,082	0	0	84,082
Other	16,325	0	0	16,325
Unreserved fund balances:	41,085	567,830	245,481	1,592,730
Total fund balances	155,735	1,306,164	256,813	1,718,712
Total Liabilities and Fund Balances	\$ 5,516,554	1,442,512	556,979	7,516,045

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances of governmental funds (page 16)	\$ 1,718,712
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,616,877
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	12,720
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(15,468)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.	174,416
Long-term liabilities including general obligation bonds payable, revenue bonds payable, capital loan notes payable, early retirement payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(2,166,210)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 6,341,047</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,727,412	664,464	309,142	3,701,018
Tuition	269,587	0	0	269,587
Other	284,448	36,242	575,976	896,666
Intermediate sources	5,320	0	0	5,320
State sources	4,481,574	0	192	4,481,766
Federal sources	269,620	0	24,789	294,409
Total revenues	8,037,961	700,706	910,099	9,648,766
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	3,462,193	0	115,249	3,577,442
Special instruction	1,170,500	0	0	1,170,500
Other instruction	905,083	0	565,276	1,470,359
	5,537,776	0	680,525	6,218,301
Support services:				
Student services	259,527	0	0	259,527
Instructional staff services	506,278	0	0	506,278
Administration services	598,417	20,803	38,917	658,137
Operation and maintenance of plant services	595,064	0	45,429	640,493
Transportation services	335,118	0	143,147	478,265
	2,294,404	20,803	227,493	2,542,700
Other expenditures:				
Facilities acquisitions	0	771,654	46,344	817,998
Long-term debt:				
Principal	0	0	140,000	140,000
Interest	0	0	24,295	24,295
AEA flowthrough	318,582	0	0	318,582
	318,582	771,654	210,639	1,300,875
Total expenditures	8,150,762	792,457	1,118,657	10,061,876
Deficiency of revenues under expenditures	(112,801)	(91,751)	(208,558)	(413,110)
Other financing sources(uses):				
Transfer in	0	0	150,000	150,000
Transfer out	0	(150,000)	(20,961)	(170,961)
Issuance of revenue bonds	0	520,000	0	520,000
Issuance of capital loan notes	0	835,000	0	835,000
Total other financing sources(uses)	0	1,205,000	129,039	1,334,039
Net change in fund balances	(112,801)	1,113,249	(79,519)	920,929
Fund balance beginning of year	268,536	192,915	336,332	797,783
Fund balance end of year	\$ 155,735	1,306,164	256,813	1,718,712

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 18) \$ 920,929

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 853,370	
Depreciation expense	(399,002)	
Loss on disposal of capital assets	(519)	453,849

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 12,720

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities in an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	\$ (1,355,000)	
Repaid	140,000	(1,215,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (10,436)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 174,416

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(886)	
Early retirement	(26,590)	(27,476)

Changes in net assets of governmental activities (page 15) \$ 309,002

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Assets		
Cash and pooled investments	\$ 20,386	12,720
Accounts receivable	76	0
Inventories	20,488	0
Capital assets, net of accumulated depreciation(Note 5)	55,257	0
Total Assets	96,207	12,720
Liabilities		
Salaries and benefits payable	4,387	0
Unearned revenue	6,036	0
Total Liabilities	10,423	0
Net Assets		
Invested in capital assets	55,257	0
Unrestricted	30,527	12,720
Total Net Assets	\$ 85,784	12,720

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service
Operating revenues:		
Local sources:		
Charges for services	\$ 244,689	52,318
Operating expenses:		
Instruction:		
Regular	0	49,248
Support services:		
Operation and maintenance of plant services:		
Services	2,730	0
Non-instructional programs:		
Food service operations:		
Salaries	138,771	0
Benefits	63,420	0
Services	1,209	0
Supplies	176,827	0
Other	330	0
Depreciation	8,761	0
Total operating expenses	392,048	49,248
Operating income(loss)	(147,359)	3,070
Non-operating revenues:		
State sources	5,026	0
Federal sources	138,098	0
Interest income	798	0
Total non-operating revenues	143,922	0
Change in net assets before other financing sources	(3,437)	3,070
Other financing sources		
Transfer in	0	9,650
Change in net assets	(3,437)	12,720
Net assets beginning of year	89,221	0
Net assets end of year	\$ 85,784	12,720

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities
	School	Internal
	Nutrition	Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 250,649	0
Cash received from miscellaneous operating activities	0	52,318
Cash payments to employees for services	(201,871)	(49,248)
Cash payments to suppliers for goods or services	(155,017)	0
Net cash provided by (used in) operating activities	(106,239)	3,070
Cash flows from non-capital financing activities:		
Transfer from agency	0	9,650
State grants received	5,026	0
Federal grants received	107,447	0
Net cash provided by non-capital financing activities	112,473	9,650
Cash flows from capital and related financing activities:		
Purchase of capital assets	(5,724)	0
Cash flows from investing activities:		
Interest on investments	798	0
Net increase in cash and cash equivalents	1,308	12,720
Cash and cash equivalents at beginning of year	19,078	0
Cash and cash equivalents at end of year	\$ 20,386	12,720
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (147,359)	3,070
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	30,651	0
Depreciation	8,761	0
Increase in inventories	(4,572)	0
Increase in accounts receivable	(76)	0
Increase in salaries and benefits payable	320	0
Increase in unearned revenue	6,036	0
Net cash provided by(used in) operating activities	\$ (106,239)	3,070
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 20,386	12,720

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$30,651.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	Private-Purpose Trust				
	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Alchon Scholarship	Total
ASSETS					
Cash and pooled investments	\$ 810,828	5,730	2,102	35,000	853,660
NET ASSETS					
Reserved for scholarships	774,300	5,691	2,000	35,000	816,991
Unreserved	36,528	39	102	0	36,669
TOTAL NET ASSETS	\$ 810,828	5,730	2,102	35,000	853,660

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2007

	Agency Fund	Raub Scholarship	Heiden Scholarship	Neuwohner Scholarship	Werner Scholarship	Alchon Scholarship	Total
ADDITIONS:							
Local sources:							
Interest income	\$ 0	40,258	742	80	1	0	41,081
Donations	0	0	0	14	0	0	14
	0	40,258	742	94	1	0	41,095
DEDUCTIONS:							
Support services:							
Scholarship awarded	0	17,857	1,000	100	739	0	19,696
Excess(deficiency) of revenues over(under) expenditures	0	22,401	(258)	(6)	(738)	0	21,399
Other financing sources(uses)							
Transfer in	0	14,127	5,988	108	738	0	20,961
Transfer out	(9,650)	0	0	0	0	0	(9,650)
Total other financing sources(uses)	(9,650)	14,127	5,988	108	738	0	11,311
Change in net assets	(9,650)	36,528	5,730	102	0	0	32,710
Net assets beginning of year	9,650	774,300	0	2,000	0	35,000	820,950
Net assets end of year	\$ 0	810,828	5,730	2,102	0	35,000	853,660

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS
COMPONENT UNIT
JUNE 30, 2007

	<u>Osage Education Foundation</u>
Assets	
Cash and cash equivalents	\$ 247,646
Certificates of deposit	<u>145,000</u>
Total Assets	<u>\$ 392,646</u>
 Total Liabilities	 <u>-</u>
Net Assets	
Reserved for scholarships	40,325
Reserved for construction	179,618
Unreserved net assets	<u>172,703</u>
Total net assets	<u>392,646</u>
 Total Liabilities Net Assets	 <u>\$ 392,646</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
 STATEMENT OF SUPPORT AND REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS - CASH BASIS
 COMPONENT UNIT
 YEAR ENDED JUNE 30, 2007

	<u>Osage Education Foundation</u>
Support and Revenue:	
Interest	\$ 13,706
Contributions for construction	1,786,664
Contributions for scholarships	63,831
Admissions for Alumni reception	2,188
Other	4,644
Total support and revenue	<u>1,871,033</u>
Expenses:	
Supplies	18,014
Scholarships	9,000
Grants	10,918
Construction services	1,640,000
Postage	2,058
Other	605
Total expenses	<u>1,680,595</u>
Excess of support and revenue over expenses	190,438
Net assets beginning of year	<u>202,208</u>
Net assets end of year	<u>\$ 392,646</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

OSAGE COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

(1) Summary of Significant Accounting Policies

The Osage Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Osage, Orchard and Mitchell, Iowa and the predominate agricultural territory in Mitchell and Floyd Counties. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Osage Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

These government financial statements present the Osage Community School District (the primary government) and the Osage Education Foundation (its component unit). The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Osage Education Foundation is a legally separate not-for-profit foundation. The Foundation was established for the purpose of giving financial assistance to the Osage Community School District and granting scholarships to its students who will attend community colleges and universities. The Foundation is governed by a Board of Directors approved by the Osage Community School Board.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Mitchell County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following nonmajor proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the flex benefit programs.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

Long-term Liabilities - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Certificates of deposit are classified as Category 1, which means the investments are insured and held by the District in the District's name. Certificates of deposit are stated at fair value.

At June 30, 2007, the District had investments in Certificates of Deposit maturing over one year as follows:

Type	Fair Value
Certificates of deposit	\$ 841,300

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Interfund Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
	Local Option Sales	
Debt Service	and Service Tax	\$ 150,000
Internal Service	Agency	9,650
Non-expendable Trust	Expendable Trust	20,961
Total		\$ 180,611

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/07	1/25/08	\$ 480,771	10,851	482,000	9,222
2007-08A	6/27/07	6/27/08	1,160,164	347	1,162,000	296
Total			<u>\$ 1,640,935</u>	<u>11,198</u>	<u>1,644,000</u>	<u>9,518</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	\$ 0	150,000	150,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2006-07B	4.250%	5.315%
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 422,000	0	0	422,000
Construction in progress	0	477,356	0	477,356
Total capital assets not being depreciated	422,000	477,356	0	899,356
Capital assets being depreciated:				
Buildings	7,112,735	82,600	0	7,195,335
Improvements other than buildings	98,624	0	0	98,624
Machinery and equipment	2,524,866	293,414	170,677	2,647,603
Total capital assets being depreciated	9,736,225	376,014	170,677	9,941,562
Less accumulated depreciation for:				
Buildings	2,266,426	204,391	0	2,470,817
Improvements other than buildings	2,525	5,039	0	7,564
Machinery and equipment	1,726,246	189,572	170,158	1,745,660
Total accumulated depreciation	3,995,197	399,002	170,158	4,224,041
Total capital assets being depreciated, net	5,741,028	(22,988)	519	5,717,521
Governmental activities capital assets, net	\$ 6,163,028	454,368	519	6,616,877

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
Business-type activities:				
Machinery and equipment	\$ 157,149	5,724	753	162,120
Less accumulated depreciation	98,855	8,761	753	106,863
Business-type activities capital assets, net	\$ 58,294	(3,037)	0	55,257

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 105,202
Other	12,273
Support services:	
Operation and maintenance of plant services	1,768
Transportation services	70,317
	189,560
Unallocated depreciation	209,430
Total governmental activities depreciation expense	\$ 398,990
Business-type activities:	
Food services	\$ 8,761

(6) Long-Term Liabilities

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 585,000	0	140,000	445,000	145,000
Revenue Bonds	0	520,000	0	520,000	0
Energy Loan Notes	0	835,000	0	835,000	0
Accrued Compensated Absences	0	886	0	886	886
Early Retirement	338,734	91,034	64,444	365,324	68,318
Total	\$ 923,734	1,446,920	204,444	2,166,210	214,204

General Obligation Bonds

Details of the District's June 30, 2007 general obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated April 1, 1996		
		Principal	Interest	Total
2008	5.05	% \$ 145,000	15,653	160,653
2009	5.15	145,000	10,577	155,577
2010	5.25	155,000	5,503	160,503
Total		\$ 445,000	31,733	476,733

Revenue Bonds

During the year ended June 30, 2007, the District issued \$520,000 in revenue bonds dated March 1, 2007 for construction costs associated with improvements at the school.

Details of the District's June 30, 2007 revenue bond indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue dated March 1, 2007		
		Principal	Interest	Total
2008	-	% \$ -	18,850	18,850
2009	4.35	75,000	20,987	95,987
2010	4.35	80,000	17,618	97,618
2011	4.35	85,000	14,029	99,029
2012	4.35	90,000	10,223	100,223
2013	4.35	95,000	6,199	101,199
2014	4.35	95,000	2,066	97,066
Total		\$ 520,000	89,972	609,972

Energy Loan Notes

During the year ended June 30, 2007, the District issued \$835,000 in energy loan notes dated March 1, 2007 for construction costs associated with energy management improvements at the school. Annual payments for the notes will be made from the General Fund.

Details of the District's June 30, 2007 energy loan notes indebtedness is as follows:

Year Ending June 30,	Energy Loan Notes dated March 1, 2007			
	Interest Rate	Principal	Interest	Total
2008	- %	\$ -	45,925	45,925
2009	4.40	80,000	36,740	116,740
2010	4.40	80,000	33,220	113,220
2011	4.40	85,000	29,700	114,700
2012	4.40	90,000	25,960	115,960
2013	4.40	90,000	22,000	112,000
2014	4.40	95,000	18,040	113,040
2015	4.40	100,000	13,860	113,860
2016	4.40	105,000	9,460	114,460
2017	4.40	110,000	4,840	114,840
Total		\$ 835,000	239,745	1,074,745

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District, except for administrators who must have completed ten years. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are equal to a cash payment equal to the employee's accumulated sick leave plus 40% of the employee's annual salary. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement. Early retirement expenditures for the year ended June 30, 2007 totaled \$64,444.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$287,139, \$272,762 and \$270,450 respectively, equal to the required contributions for each year.

(8) Risk Management

Osage Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$318,582 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Construction Commitment

As of June 30, 2007, costs of \$477,356 had been incurred on construction contracts for District improvements. When construction is completed, the final cost of the projects will be added to the capital assets.

REQUIRED SUPPLEMENTARY INFORMATION

OSAGE COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 4,867,271	245,487	5,112,758	4,834,643	4,834,643	278,115
Intermediate sources	5,320	0	5,320	0	0	5,320
State sources	4,481,766	5,026	4,486,792	4,435,278	4,435,278	51,514
Federal sources	294,409	138,098	432,507	377,164	377,164	55,343
Total revenues	9,648,766	388,611	10,037,377	9,647,085	9,647,085	390,292
Expenditures:						
Instruction	6,218,301	0	6,218,301	6,242,531	6,691,886	473,585
Support services	2,542,700	2,730	2,545,430	2,569,887	2,835,159	289,729
Non-instructional programs	0	389,318	389,318	450,000	450,000	60,682
Other expenditures	1,300,875	0	1,300,875	874,306	1,562,691	261,816
Total expenditures	10,061,876	392,048	10,453,924	10,136,724	11,539,736	1,085,812
Deficiency of revenues under expenditures	(413,110)	(3,437)	(416,547)	(489,639)	(1,892,651)	(1,476,104)
Other financing sources, net	1,334,039	0	1,334,039	0	0	(1,334,039)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	920,929	(3,437)	917,492	(489,639)	(1,892,651)	(2,810,143)
Balance beginning of year	797,783	89,221	887,004	1,753,049	1,753,049	(866,045)
Balance end of year	\$ 1,718,712	85,784	1,804,496	1,263,410	(139,602)	1,944,098

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2007, the District amended its budget one time increasing total expenditures by \$1,403,012.

OTHER SUPPLEMENTARY INFORMATION

OSAGE COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2007

	Special Revenue Funds						
	Physical				Total	Total	
	Manage-	Student	Equipment	Expendable	Special	Debt	Nonmajor
	ment Levy	Activity	Levy	Trust	Revenue Funds	Service	Governmental Funds
Assets							
Cash and pooled investments	\$ 36,421	158,758	1,055	54,216	250,450	11,107	261,557
Receivables:							
Property tax:							
Current year delinquent	3,189	0	121	0	3,310	225	3,535
Succeeding year	200,000	0	5,013	0	205,013	14,124	219,137
Income surtax	0	0	69,766	0	69,766	0	69,766
Accounts	0	2,984	0	0	2,984	0	2,984
Total Assets	\$ 239,610	161,742	75,955	54,216	531,523	25,456	556,979
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 0	11,263	0	0	11,263	0	11,263
Deferred revenue:							
Succeeding year property tax	200,000	0	5,013	0	205,013	14,124	219,137
Income surtax	0	0	69,766	0	69,766	0	69,766
Total Liabilities	200,000	11,263	74,779	0	286,042	14,124	300,166
Fund balances:							
Reserved for debt service	0	0	0	0	0	11,332	11,332
Unreserved fund balances	39,610	150,479	1,176	54,216	245,481	0	245,481
Total fund balances	39,610	150,479	1,176	54,216	245,481	11,332	256,813
Total Liabilities and Fund Balances	\$ 239,610	161,742	75,955	54,216	531,523	25,456	556,979

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 196,224	0	98,666	0	294,890	14,252	309,142
Other	17,026	538,988	2,368	17,594	575,976	0	575,976
State sources	173	0	7	0	180	12	192
Federal sources	0	0	24,789	0	24,789	0	24,789
TOTAL REVENUES	213,423	538,988	125,830	17,594	895,835	14,264	910,099
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	115,249	0	0	0	115,249	0	115,249
Other instruction	0	565,276	0	0	565,276	0	565,276
Support services:							
Administration services	13,432	0	25,485	0	38,917	0	38,917
Operation and maintenance of plant services	45,429	0	0	0	45,429	0	45,429
Transportation services	16,055	0	127,092	0	143,147	0	143,147
Other expenditures:							
Facilities acquisitions	0	0	46,344	0	46,344	0	46,344
Long-term debt:							
Principal	0	0	0	0	0	140,000	140,000
Interest and fiscal charges	0	0	0	0	0	24,295	24,295
TOTAL EXPENDITURES	190,165	565,276	198,921	0	954,362	164,295	1,118,657
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)EXPENDITURES	23,258	(26,288)	(73,091)	17,594	(58,527)	(150,031)	(208,558)
OTHER FINANCING SOURCES(USES):							
Transfers in	0	0	0	0	0	150,000	150,000
Transfers out	0	0	0	(20,961)	(20,961)	0	(20,961)
Total other financing sources (uses)	0	0	0	(20,961)	0	150,000	129,039
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	23,258	(26,288)	(73,091)	(3,367)	(79,488)	(31)	(79,519)
FUND BALANCES BEGINNING OF YEAR	16,352	176,767	74,267	57,583	324,969	11,363	336,332
FUND BALANCES END OF YEAR	\$ 39,610	150,479	1,176	54,216	245,481	11,332	256,813

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
H.S. Booster Club	\$ 33,172	51,133	29,226	55,079
SADD	81	0	0	81
Dramatics	2,611	3,761	6,372	0
Speech	696	484	276	904
Pop Machine	6,582	10,869	7,644	9,807
Project Prom	5,388	7,865	6,570	6,683
Band Trip	22,000	104,381	123,335	3,046
Chorus Trip	17,856	7,675	3,622	21,909
Bionics	0	0	0	0
Cheerleaders	5,772	8,645	10,088	4,329
Magazine Sales	0	12,545	12,545	0
Class of 2008	172	10,262	10,434	0
Class of 2009	0	0	0	0
Class of 2011	10	1,548	149	1,409
FFA	322	97,674	97,996	0
Future Teachers	309	135	95	349
Boys Cross Country Camp	815	73	0	888
Annual	4,474	6,609	6,245	4,838
Spanish	5,594	4,787	7,043	3,338
Student Council	755	5,637	6,392	0
Boys Basketball Camp	1,597	2,177	3,346	428
Football Camp	4,016	3,903	2,608	5,311
Baseball Camp	1,066	1,980	2,228	818
Wrestling Camp	244	0	179	65
Girls Basketball Camp	2,899	2,855	3,279	2,475
Volleyball Camp	523	9,164	5,325	4,362
Softball Camp	825	7,424	7,986	263
Basketball-Boys	220	0	220	0
Football	1,654	0	1,654	0
Baseball	4,166	0	4,166	0
Boys Track	60	0	60	0
Golf	132	0	82	50
Wrestling	269	1,345	1,614	0
Girls Basketball	1,906	0	1,906	0
Volleyball	0	0	0	0
Concession Stand	0	28,151	28,151	0
Girls Track	0	0	0	0
Softball	743	0	743	0
Tennis	413	0	413	0
National Honor Society	0	42	42	0
Girls Cross Country	105	0	105	0
Boys Cross Country	0	1,858	1,858	0

OSAGE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Computer	243	980	803	420
Girls Track Camp	0	1,500	1,500	0
Boys Track Camp	244	1,466	1,548	162
Pepsi Money	3,496	9,801	6,662	6,635
Football Activity Tickets	1,722	2,841	4,277	286
Weightroom	30,643	559	31,202	0
FCCLA	0	120	107	13
Golf Camp	0	890	460	430
Girls Cross Country Camp	0	1,176	944	232
Athletics	0	109,996	103,843	6,153
Interest	317	0	317	0
Lincoln Pop	868	675	396	1,147
Lincoln Special Projects	0	1,452	1,452	0
Washington Special Projects	0	2,156	2,156	0
Washington Pop	1,608	480	492	1,596
M.S. Student Council	6,363	8,128	12,030	2,461
M.S. Special Olympics	3,816	3,786	3,090	4,512
Total	\$ 176,767	538,988	565,276	150,479

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET FOR CAPITAL PROJECT FUND
 JUNE 30, 2007

	Capital Projects Fund		
	Building Projects	Local Option Sales Tax	Total
Assets			
Cash and pooled investments	\$ 855,360	438,925	1,294,285
Receivables:			
Due from other governments	0	148,227	148,227
Total Assets	\$ 855,360	587,152	1,442,512
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 117,026	19,322	136,348
Total liabilities	117,026	19,322	136,348
Fund balances:			
Reserved for construction	738,334	0	738,334
Unreserved fund balance	0	567,830	567,830
Total fund balances	738,334	567,830	1,306,164
Total Liabilities and Fund Balances	\$ 855,360	587,152	1,442,512

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE
 CAPITAL PROJECT FUND
 YEAR ENDED JUNE 30, 2007

	Capital Project Fund		
	Building Projects	Local Option Sales Tax	Total
REVENUES:			
Local sources:			
Local option sales and service tax	\$ 0	664,464	664,464
Donations	0	500	500
Interest on investments	16,036	19,706	35,742
TOTAL REVENUES	16,036	684,670	700,706
EXPENDITURES:			
Current:			
Support services:			
Administration services	20,803	0	20,803
Other expenditures:			
Facilities acquisitions	611,899	159,755	771,654
TOTAL EXPENDITURES	632,702	159,755	792,457
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(616,666)	524,915	(91,751)
OTHER FINANCING SOURCE (USES):			
Issuance of revenue bonds	520,000	0	520,000
Issuance of capital loan notes	835,000	0	835,000
Transfer out to debt service	0	(150,000)	(150,000)
TOTAL OTHER FINANCING SOURCES (USES)	1,355,000	(150,000)	1,205,000
EXCESS (DEFICIENCY) OF REVENUES AND OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	738,334	374,915	1,113,249
FUND BALANCES BEGINNING OF YEAR	0	192,915	192,915
FUND BALANCES END OF YEAR	\$ 738,334	567,830	1,306,164

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OSAGE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$	3,701,018	3,329,036	3,128,088	3,130,230
Tuition		269,587	356,273	335,005	351,671
Other		896,666	805,274	790,760	640,956
Intermediate sources		5,320	60,393	61,346	62,442
State sources		4,481,766	4,236,604	4,126,057	3,776,755
Federal sources		294,409	276,208	166,592	177,334
Total	\$	9,648,766	9,063,788	8,607,848	8,139,388
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	3,577,442	3,247,202	3,062,556	3,224,960
Special instruction		1,170,500	1,166,899	1,114,163	1,236,387
Other instruction		1,470,359	1,296,333	1,194,772	913,930
Support services:					
Student services		259,527	277,336	282,087	250,492
Instructional staff services		506,278	294,270	312,190	303,819
Administration services		658,137	799,481	707,799	643,447
Operation and maintenance of plant services		640,493	631,683	544,878	522,112
Transportation services		478,265	469,451	291,496	288,899
Non-instructional programs		0	0	1,830	9,607
Other expenditures:					
Facilities acquisitions		817,998	347,813	280,178	412,623
Long-term debt:					
Principal		140,000	130,000	125,000	115,000
Interest		24,295	37,493	44,079	49,558
AEA flow-through		318,582	298,926	293,352	290,290
Total	\$	10,061,876	8,996,887	8,254,380	8,261,124

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Education of the
Osage Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of Osage Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 4, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Osage Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Osage Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Osage Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Osage Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Osage Community School District's financial statements that is more than inconsequential will not be prevented or detected by Osage Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Osage Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Osage Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Osage Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Osage Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Osage Community School District and other parties to whom Osage Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Osage Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

January 4, 2008

OSAGE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

- I-B-07 Booster Club - We noted during our audit, that the District's Booster Club uses the District's Federal Identification Number. Because the Booster Club is using the District's Federal Identification Number, the District should be accounting for the Booster Club within the District's Activity Fund. The summary of transactions has been included in the Student Activity Fund for the financial statements. The Booster Club's accounts should be included in the District's financial statements and subjected to the same Code of Iowa requirements as well as internal controls that the District follows.

In Iowa, all funds collected through school activities are under the financial control of the District's Board of Education. Proper accounting of all receipts and expenditures in these accounts is the responsibility of the Board of Education and the District's Board Secretary. The District may maintain subsidiary records for student activities, but all official records of the Student Activity Fund shall be maintained on the District's Uniform Financial Accounting system. If subsidiary records are maintained, these records must be reconciled to the official records monthly.

Recommendation - The District should contact officials of the Booster Club and request the accounts to be turned over to the District. The Booster Club may establish a 501(c)(3) organization, however the current accounts are District assets and should be turned over to the District for proper recording. In addition, the Board of Directors should consider contacting local banks and request listings of accounts utilizing the District's Federal Identification Number. The District should research any unfamiliar accounts and make necessary changes.

Response - The Booster Club is in the process of applying for a different Federal Identification Number instead of using the District's. The Board will review the information presented in the comment and discuss with the Booster Club on how to proceed.

Conclusion - Response accepted.

I-C-07 Student Activity Fund-Individuals Receiving Checks - We noted during our audit that students were receiving checks from the Activity Fund for services performed at sporting events being held at the school. Proper supporting documentation showing which students worked events was not always kept for District records.

Recommendation - When the District pays students for working sporting events for the school, the student should be issued a payroll check from the General Fund and then the Activity Fund reimburse the General Fund for the expense. Documentation should be kept showing which student worked what events and the pay per hour for events worked. Individual students should receive W-2's at the completion of the calendar year.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

I-D-07 Gate Admissions - Pre-numbered tickets are not being used for all performances and athletic events held on District grounds.

Recommendation - The District should adopt a Board policy addressing internal control procedures for handling cash for all performances and athletic events. The policy, at a minimum, should include the following:

- a. Change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in ticket sales/cash collecting process. The individuals responsible for ticket sales/cash collecting during the event should be instructed not to leave the change box unattended under any circumstances.
- d. Upon completion of the event, cash should be reconciled by two or more individuals to the number of pre-numbered tickets sold during the event and the amount of beginning cash in the change box.
- e. To reconcile, the next unsold ticket minus the beginning ticket number determines the actual number of tickets sold. The number of tickets sold times the price per ticket equals total sales. Total sales compared to total collections should reconcile. Variances, if any, should be small
- f. A reconciliation sheet should be completed and signed off on by all individuals responsible for counting and reconciling cash.
- g. The change box should be turned into the Activity Director or designee responsible for the accounting function at the event.
- h. The Activity Director or designee should be required to either take to the night deposit at the bank or lock the event proceeds in the District's vault until a deposit can be made the following business day.
- i. A pre-numbered receipt should be written by an individual in the Business Office the next day in the amount of the confirmed deposit.

- j. Administrative personnel should periodically test or review the gate admissions process to ensure that the adopted procedures are being followed properly.
- k. Segregation of duties should be maintained as much as possible throughout the gate admissions process.

Response - The District will review our current procedures and the auditor's recommendations and changes will be made in the District's processes for gate admissions.

Conclusion - Response accepted.

OSAGE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - Business transactions between the District and District officials are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Robert Kasel, Janitor Owns his own lawn care business	Purchased service	\$75

In accordance with Attorney General Opinion dated July 2, 1990, the transaction with the employee does not appear to be a conflict of interest.

- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.